

~~SECRET~~

CFEP DRAFTING GROUP

ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 14  
(Draft of June 7, 1955)  
Contributed by Defense

NATO, SEATO and the Economic Defense Program

**OSD DECLASSIFICATION/RELEASE INSTRUCTIONS ON FILE**

I. Principles and Objectives of NATO, as Related to the Economic Defense Program.

Just over six years ago the North Atlantic Treaty was signed.<sup>1/</sup> This event signified the beginning of a new and constructive experiment in international relations. "Twelve independent sovereign states - later to be joined by others - undertook pledges which called for immediate and continuous collective action, not only in the military, but also in the political, economic and social fields."<sup>2/</sup>

NATO had its origin in the conviction, on the part of the nations involved, that the U.S.S.R. had embarked on an aggressive program the objective of which was domination of the whole world. The U.S.S.R. had already drawn the nations of Poland, Czechoslovakia, Hungary, Romania, Bulgaria and Albania behind the iron curtain. Soviet forces controlled Eastern Germany and a sector of Austria. The threat to the countries of Western Europe was obvious. Moreover, there was abundant evidence that Russia was modernizing and maintaining her military forces at top strength, was rapidly rebuilding the industrial facilities destroyed by the war, and was

<sup>1/</sup> The original signatories of the Treaty were Belgium, Canada, Denmark, France, Iceland, Italy, Luxembourg, The Netherlands, Norway, Portugal, the U.K. and the U.S. Greece and Turkey acceded to the alliance on February 18, 1952 and W. Germany on May 6, 1955.

<sup>2/</sup> Lord Ismay, NATO, the First Five Years, 1949-1954, p.ix.

~~SECRET~~

SECRET

- 2 -

consolidating the Satellites into an economic system geared to maximum support of the Soviet military machine. Most of the free nations of the North Atlantic area were fully convinced that collective action was necessary to maintain the security of the free world and to discourage the Soviets from starting a new world war.

Even in the U.S., with its tremendous economic, scientific and technological power, there was an increasing awareness that we need allies as much as our allies need us. Expanses of ocean are no longer the shield that they once were to our continent. More and more we look to other areas of the free world for many of the raw materials needed to supply our industry. Our superiority in long-range aircraft and nuclear weapons depends in no small measure on strategically located and well equipped bases in the allied countries.

The basic principle of the NATO is that it is a collective defense effort. The core of its significance lies in Article 5 of the Treaty, which says in part, "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all." This Article makes clear to any would-be aggressor that his attack would meet the combined resistance of the member states. It means that the U.S. has departed from its traditional peacetime isolationism and that some European countries have abandoned their reluctance to commit themselves in advance to joint defense policies.

NATO, however, is much more than an exclusive military alliance. The Preamble and the first two Articles of the treaty show that the

SECRET

SECRET

- 3 -

members realize the vital importance of cooperation not only for military defense but in other fields as well. Article 1 affirms the intention of the Parties to abide by the principles of the United Nations. Article 2, which forms the basis for the economic objectives of NATO, is quoted herewith in full: "The Parties will contribute toward the further development of peaceful and friendly international relations by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well-being. They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them." NATO's interest in economic matters - both the economic well-being of the NATO countries and the economic structure of the Soviet bloc (as support for the bloc's military potential) is indicated in the extensive coverage of these factors in the Annual Review and in Standing Group papers.

To make possible the fulfillment of their obligations under the treaty, the treaty powers set up a rather elaborate collective machinery, which has undergone reorganization and "streamlining" in the course of its experience. Originally the North Atlantic Council was composed of the Foreign Ministers of the member countries. Two principal committees were set up: the Defense Committee (Defense Ministers) and the Defense Financial and Economic Committee (Finance Ministers). In 1951 it was decided that the Council would be composed of Foreign, Defense or Finance Ministers as

SECRET

SECRET

- 4 -

governments saw fit. "It would be a Council of governments, not one of individual ministers."<sup>3/</sup> The Council Deputies, later designated as Permanent Representatives, became the permanent working organization of the North Atlantic Council. In April, 1952 NATO Headquarters was moved from London to the Palais de Chaillot in Paris.

Late in 1949, only a few months after NATO was established, another organization was set up in Paris - the Consultative Group. In 1948 the U.S., unilaterally, had decided to put into effect security controls over exports to the Soviet bloc. During 1948 and early 1949 the U.S. carried on discussions in the effort to obtain parallel action by European countries. In multilateral discussions in Paris, October - November, 1949, attended by delegates of the U.S., U.K., France, Italy, Netherlands and Belgium, with Norway and Denmark as observers, the Consultative Group (CG) was formed. At this meeting a report was prepared which recommended that an Advisory Group at the Ministerial level continue to meet, and that its future work be: "To consider matters arising from the implementation of an agreed policy for the control of exports on grounds of security with the object of achieving the greatest possible uniformity and efficiency of action among the governments which adopt this agreed policy." This report was accepted by all except the Netherlands delegate. At this meeting the International Lists I, II and III were established. At a subsequent meeting of the CG, in January, 1950, the Coordinating Committee (COCOM) was set up, to be a continuing committee "which would insure adequate review of

<sup>3/</sup> Lord Ismay, NATO, the First Five Years, 1949-1954, p.41

SECRET

SECRET

- 5 -

problems of security export control." Thereafter COCOM became the permanent working committee on security trade control matters, and the CG's function is to hold a periodic review of COCOM's activities, the consideration of general or policy matters arising out of COCOM's work, and the establishment of a general frame of reference for COCOM's activities.

The point in juxtaposing brief sketches of the origin of these two international organizations is to emphasize the similarity of the overall objectives of the two bodies. Though NATO covers a broader field, while CG/COCOM is concerned primarily with the problem of preventing the acquisition by the Soviet bloc of materials which aid its war potential, both organizations had their origin in a recognition of the threat posed by the Soviet bloc and a recognition of the need for unity and collective action to maintain and enhance the defensive strength of the free world. In a sense, CG/COCOM, in attacking the economic defense aspect of security trade controls, promotes one important phase of the overall political/military/economic defense objectives of NATO, particularly in relation to the objectives set forth in Article 2 of the NATO charter.

Having noted the similarity in principles and objectives of the two bodies, we must recognize the dissimilarity in their methods of organization and operation, and in the implementation of their objectives.

In the first place, NATO has a highly formalized organizational structure headed by the North Atlantic Council. The Permanent Representatives, the Secretary General, the International Staff Secretariat, and several committees and subcommittees covering every phase of NATO's responsibilities,

SECRET

SECRET

- 6 -

work in close collaboration in Paris. On the other hand, CG/COCOM is a very informal organization. COCOM and its Secretariat are in continuous session in Paris. The CG meets occasionally on call. In late 1952 the China Committee (CHINCOM) was set up to administer the stricter level of controls against Communist China and North Korea. Theoretically CHINCOM was to be a separate committee, on a par with COCOM. A few CG countries designated separate representatives to CHINCOM upon its organization, but for the past year and more the membership of the two committees has been practically the same.

In the second place, the existence and general objectives of NATO have always been public knowledge, though much of its work and publications are classified. Conversely, the CG/COCOM was set up in secret, and up until 1952 its very existence was supposed to be a carefully guarded secret. The primary reason for this secrecy and informality was to avoid the United Nations obligation to register international agreements. This explains in part why the scope and terms of reference of the organization were not carefully worked out at its beginning. An additional reason for secrecy was that general publicity would have created internal and external political problems for certain participating countries.

In the third place, NATO operations have been characterized by a relatively high degree of cooperation. Patience and give-and-take, however, are often required, since final decisions must be unanimous. The rule of unanimity holds in CG/COCOM just as in NATO. But the achievement of unanimity in CG/COCOM has occasioned a more or less continuous series of

SECRET

SECRET

- 7 -

wrangles over a variety of issues: the secrecy question, the type of problems to come within the competency of CG/COCOM, the criteria for placing items on the International Lists, the size of quotas for items under quantitative control, controls over shipping, and many others. In such circumstances unanimity can usually be achieved only on the basis of a "lowest common denominator." The result is an economic defense program which, in the view of the U.S. and a few other CG members, falls short of fulfilling free world security objectives.

This raises the question: since a considerable number of free nations have achieved a reasonably high degree of cooperative accomplishment in building up the defensive strength of the free world in NATO, why has practically the same group of nations had so much difficulty in achieving the objectives of the security trade control program through CG/COCOM? There may be many answers to the question, but it is clear that the key to the answer lies largely in a conflict between security interests and commercial interests. Certainly it is agreed by most nations of the free world, whether or not members of NATO and CG, that in the security interest of the free world the bloc ought not to be furnished with those materials and services which enable it to build up its aggressive machine and the economic and industrial base to support that machine. But when it comes to actual trade deals, the prospective profit in selling to the Soviet bloc (often enhanced by premium prices offered by the bloc) is too tempting to the traders. Thus the commercial interests exert pressure, through Ministries of Trade, upon Foreign Offices and upon CG/COCOM delegates, with the result that free world

SECRET



SECRET

- 8 -

pressure on the economic and military potential of the bloc is far less effective than it could be. Another contributing factor to a certain amount of dissension is no doubt the fact that a legislative act of one participating country - the U.S. - is interpreted by some countries as dictating the basic premises for the existence and functioning of the CG/COCOM/CHINCOM structure.

II. Problems Involved in Relating the Consultative Group More Closely to NATO

The question which gave rise to the foregoing comparison of the principles and objectives of NATO and the CG was: "How should the U.S. attempt to advance the degree of unity in, and the effectiveness of, the multilateral organization concerned with security controls?" Given the high degree of similarity in objectives of the two organizations, it would seem appropriate to examine the reasons why a closer association has not heretofore developed, and to give serious consideration to the advantages which might result from such association.

This is by no means the first time that this question has arisen. In July, 1952 a Five-Power Conference was held in Washington on "Organizational Arrangements for Far Eastern Economic Security Measures," principally concerned with the matter of bringing Japan into the economic defense structure. At that conference the U.S. proposed the establishment of a Far Eastern CG/COCOM, somewhat paralleling the Paris structure. One of the stated advantages of such a separate Far Eastern organization was that it would leave the European CG free to develop closer ties with NATO, without the complications which would result from membership of Far Eastern countries

SECRET



SECRET

- 9 -

in the European-oriented group. The U.S. view was not accepted by the other participants in the conference, Japan was invited to join the Paris CG, and the separate China Committee (CHINCOM) under the CG was established. In March, 1953 the NATO Council considered a memorandum from the Turkish Delegation, proposing that the Council give consideration to problems of East-West trade, particularly in view of a forthcoming ECE meeting. The NATO Secretariat prepared a memo on the subject /C-M(53)86, 22 June, 1953. During this period NATO and CG/COCOM representatives held several informal discussions, exploring the desirability of a suitable forum for consideration of East-West trade problems on a broad and continuing basis. These and other discussions have brought out many of the problems involved in the NATO-CG relationship. These problems appear to fall into two principal categories, and will be discussed under the headings below.

A. Problems of Competence

As was noted early in this paper, NATO at its beginning was chiefly concerned with political/military matters. Despite the existence of Article 2 of the NATO charter, there appears to have been a certain reluctance on the part of some NATO members to become involved in the problem of economic defense. In the Secretariat Memorandum referred to above /CM(53)86 it is stated: "NATO, as such, has not hitherto been directly concerned with denying commodities to the Russians and their satellites. In 1951 and early 1952, however, a study was conducted in the Financial and Economic Board, at the request of the Council Deputies, into the question of the availability

SECRET

SECRET

- 10 -

for NATO defense production of certain commodities listed by the Defense Production Board as essential. The conclusion reached was that the necessary action to conserve these commodities was already being taken with somewhat varying objectives by the International Materials Conference in Washington, by the OEEC, and by the Committees referred to above, and that no action by NATO as such was needed." In the same memorandum it is further stated, under Practical Possibilities: "The policy of NATO countries should be, on the one hand, to derive what economic and other advantages they can from trade with the East, and, on the other, to prevent the Soviet Union and her allies from drawing strategic advantage from the trade. NATO is not, however, equipped to deal with the day-to-day implementation of this policy and with the technical problems in the various fields of East/West trade." It concludes that the CG/COCOM "appear to be the only suitable international forum in which the day-to-day implications of East/West trade, and particularly its strategic aspects, can be kept under review."

Nevertheless, in this memorandum, and in other discussions at the time, it was brought out that, if CG/COCOM were to be the forum for consideration of the broader aspects of East/West trade, then its terms of reference and its secretariat would need to be enlarged, and its stature enhanced. It would have to consider such things, among others, as correlation of non-strategic trade policy and action with strategic trade policy and action (e.g., preparing common lines for international conferences, considering trade agreements, exceptions and quid pro quo); economic and political problems claimed to bear on proposed exceptions;

SECRET

SECRET

- 11 -

efforts to find alternative markets for goods which are prevented from going to the East. Certain of the CG countries, the U.K. in particular, have generally taken the view that the activities of that organization should be limited to the negative policy of denying strategic commodities (liberally interpreted) to the bloc. In such an atmosphere a broadening of the range of problems handled by CG/COCOM would more likely result in providing further excuses for exporting strategic goods to the bloc.

Let us look back at Article 2 of the North Atlantic Treaty, which empowers the signatories to find means of creating more effective economic and cultural ties with one another. As long ago as September, 1951, the Council set up a Ministerial Committee to consider the further strengthening of the NATO community and especially the implementation of Article 2. The Committee was directed to make recommendations, among others, on "closer economic, financial and social cooperation, designed to promote conditions of economic stability and well-being, both during and after the present period of the defense effort, within the North Atlantic Treaty Organization or through other Agencies." Lord Ismay had this to say, in 1954: "Can NATO then continue to concentrate almost exclusively on defense? Council communiques and government statements have stressed that NATO should be used increasingly as an instrument of cooperation outside the military sphere, and that the provisions of the Treaty for 'self-help and mutual aid' should be applied not only to the military build-up but also to the peacetime problems of the Atlantic Community."

More recently the NATO has indicated a more positive interest in

SECRET

**SECRET**

- 12 -

its responsibilities relating to Article 2. This is evidenced in the current series of economic studies which were initiated by the NATO International Staff during November - December 1954. These studies will attempt to assess and compare the economies of the Soviet bloc on the one hand and of the NATO countries on the other, in order to expose the relative strengths and weaknesses of the two. A Working Group has been established to carry on these studies in cooperation with the International Staff.

#### B. Problems of Membership

In the past, when the relationship of the CG to NATO has been considered, membership problems have been a stumbling block. On the one hand was Iceland, which is a member of NATO but not of CG; on the other were West Germany and Japan, which were members of CG but not of NATO. Otherwise the membership of both bodies was identical.

The first of these presents no serious problem. There is no real reason why Iceland should not be a member of CG/COCOM. Indeed, in view of her problem of disposing of her fish products in Soviet markets, and being pressured by the Soviets to become dependent on supplies of Soviet petroleum products, there are good reasons why Iceland should be associated with the CG structure.

The more serious problem was the second. But that problem has been cut in half within the past two months by the accession of the German Republic to NATO. This leaves Japan as the only CG member not eligible for NATO membership. Admittedly this is a difficult problem; but the solution may well be found through another development which has occurred

SECRET

- 13 -

since this problem was considered, namely, the establishment of the South East Asia Treaty Organization (SEATO).<sup>4/</sup> Japan is not presently a member of SEATO, and there may be many political problems, both internal and external to Japan, in achieving her membership.

C. Possible Organizational Arrangements

NATO and the CG might be brought into closer relationship in several different ways, ranging from complete amalgamation of the CG structure in NATO to a continuance of the separate structures with improved liaison arrangements.

Plan A

Serious consideration should be given to the feasibility of U.S. initiation of organizational improvements along the following lines:

1. Attempt to obtain Japan's accession to SEATO;
2. Encourage other free world countries to associate themselves with either NATO or SEATO, (or other similar regional organizations when appropriately developed);
3. Abolish the CG, and establish COCOM as a Committee under the North Atlantic Council, to be called the Committee on Economic Defense, or a similar title;
4. Establish a similar Committee with similar functions under SEATO

<sup>4/</sup> The SEATO Treaty was signed September 8, 1954, the signatories being Australia, France, New Zealand, Pakistan, the Philippines, Thailand, U.K., U.S. Its objectives are similar to those of NATO, but its organizational apparatus is not yet so highly developed.

SECRET

- 14 -

and other regional groups when appropriate;

5. Establish a joint policy staff between the NATO Council and the SEATO Council;

6. Provide for periodic joint meetings of NATO and SEATO Council representatives to review security trade control policy and problems, as related to the objectives stated and implied in Article 2 of the NATO Charter.

#### Plan B

If Plan A be considered impracticable at the present time, and it is concluded that the present CG structure should be continued, then at least the following steps should be undertaken:

1. Establish a joint policy staff between the NATO Council and the Consultative Group;

2. Facilitate a close working relationship between the NATO International Staff/Secretariat and the CG/COCOM Secretariat;

3. Provide NATO technical and intelligence support to CG/COCOM;

4. Provide for NATO Council review of matters which cannot be resolved in CG;

5. Provide for periodic joint meetings of the NATO Council and the CG to consider security trade control problems as related to the objectives of Article 2 of the NATO Charter.

#### III. Evaluation of a Closer Relationship Between NATO and the CG Structure

On balance it is believed that the advantages of the NATO forum for

SECRET

SECRET

- 15 -

the consideration of the security trade control programs sufficiently outweigh the difficulties involved to justify that the U.S. seek to utilize NATO as the body for multilateral consideration of these problems. Plan A has the superior advantage in that it would provide for a similarity of control measures in all, or most, areas of the free world. It would be in keeping with an already expressed and agreed NATO view: "The problems of East/West trade are not confined to NATO countries . . . It is therefore considered unrealistic to confine the present study to Russia and her European satellites, on the one hand, and European NATO countries, on the other . . ." [C-M(53)86]. In either plan suggested above, bringing the security trade control plan under the aegis of NATO would have the following advantages:

- A. It would bring security trade controls into their proper context, as one element contributing to the overall security objective of the free world;
- B. It would provide a better means for solution of the problems of those countries who claim that economic hardship results from their observance of trade controls;
- C. With trade controls in the proper security context, there would be less opportunity for the commercial motive to work at cross purposes with the security motive;
- D. The tie-in of the organizations and the more intimate working relationships of their staffs would increase the mutual understanding of the overall security effort of the free world.

SECRET